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December 23, 2002

TO: Each Supervisor

FROM: Thomas L. Garthwaite, M.D.
Director and Chief Medical Officer

SUBJECT: **CHP OUTSOURCING – STATUS REPORT**

On June 26, 2002, the Department of Health Services (DHS) presented its proposal for restructuring its health care delivery system and addressing a \$700 million budget shortfall in Fiscal Year (FY) 2005-06. One cost-saving measure introduced in the plan is the outsourcing of Community Health Plan (CHP) administrative functions to L.A. Care Health Plan (L.A. Care). The outsourcing is targeted to save \$2.3 million in FY 2002-03, primarily through salary savings, and \$8 million annually thereafter.

Upon Board approval of the Strategic Plan, the Department entered into exclusive negotiations with L.A. Care to determine what functions it could provide more cost-effectively. In addition to achieving cost savings through efficiency, it is proposed that the outsourcing will strengthen services to CHP members, and thereby reduce the County's potential liability associated with the CHP's operations. The outsourcing will not result in a reduction of services to CHP beneficiaries.

This status report will:

- A. Present clarification on the rationale for negotiating exclusively with L.A. Care;
- B. Outline the contracting process to establish an Administrative Services Agreement with L.A. Care;
- C. Provide a preliminary list of administrative functions to be outsourced;
- D. Describe potential performance measures for evaluating the success of the effort;
- E. Describe the oversight/management functions that DHS would maintain; and,
- F. List the major steps and timelines.

RATIONALE FOR L.A. CARE NEGOTIATION

Reasons for Outsourcing

There are several reasons for recommending the outsourcing of CHP administrative functions:

1. Administering an effective managed care plan is resource intensive and has proven to be extremely challenging for the County. In the past years, the State Department of Corporations (DOC) and the State Department of Managed Health Care (DMHC) have conducted audits resulting in findings that the CHP at times has lacked the ability to administratively support the health plan.
2. Strengthening the administration of the CHP would require a substantial investment of new funds, such as ongoing funding for Information Systems and staff development. These additional needs can be within L.A. Care's existing infrastructure.
3. Outsourcing is consistent with DHS' general strategic direction to make administrative reductions and savings through efficiencies, in lieu of reducing services.
4. DHS is looking for a partnership that plays to its strengths, which is serving as a direct provider for the indigent and Medi-Cal populations. Additionally, the Department is seeking a partner with strengths and experience in health plan management.
5. To help preserve the safety net, the Department needs the administrative support of a partner who can provide consultation and assistance in developing innovative contract models and marketing strategies that will help DHS and its Public Private Partnership (PPP) Strategic Partners maximize participation in Medi-Cal managed care and other potential business opportunities.

Reason for Exclusive Negotiations with L.A. Care

The Department, after consulting with County Counsel, has determined it is reasonable to first look to L.A. Care to assist us in addressing these issues. Collaboration among county public health care systems and Local Initiatives (LIs) is one of the State's goals for the Two-Plan Model (one public and one commercial plan) for Medi-Cal managed care. According to the State's Strategic Plan, the purpose of LIs is "to balance two competing demands on the State Medi-Cal program: to act as prudent purchasers... and to support the continued existence of a 'safety net' for the care of the medically indigent" The State requires LIs to contract with safety net providers, provide extensive technical training and technical assistance, and maintain Federal disproportionate share funding for the safety net.

The recent partnering with L.A. Care to administer both the Department's In-Home Supportive Services program and the Proposition 10 Commission's Healthy Kids Health Insurance Initiative are examples of the type of alliance envisioned by the State. As part of this initiative, L.A. Care will establish patient referrals that advantage the safety net system. Leveraging the resources and expertise of L.A. Care for the administration of CHP will move Los Angeles County further along

the direction of a stronger collaboration.

The Department has concluded that it is both practical and strategic for DHS to pursue contracting with L.A. Care because of 1) our shared mission to the safety net; 2) an ongoing partnership in other areas; 3) an ability to leverage the health plan expertise and systems that L.A. Care has developed; and, 4) the potential for favorable consideration by the State regulatory agencies as both CHP and L.A. Care public entities.

CONTRACTING PROCESS

Since July 2002, the Department, L.A. Care, and County Counsel have been working to draft both a comprehensive Administrative Services Agreement and an agreement to establish L.A. Care as a subcontractor to CHP for the Healthy Families Program. The Department anticipates bringing both agreements to your Board for consideration in January.

Upon Board approval of the Administrative Services Agreement to outsource these activities, the CHP will file an application for a Material Modification to its Knox-Keene license with the DMHC to gain the State regulatory approval needed to proceed with implementation of the Board approved agreement. The Department does not anticipate difficulties with obtaining State approval of the Material Modification. CHP received State regulatory approval earlier this year to contract with L.A. Care to provide administrative functions for the IHHS product line. The upcoming Material Modification, contingent on your Board's approval of an Administrative Services Agreement, will be similar, but larger in scope. The new Material Modification will include all of CHP's major product lines (Medi-Cal, Healthy Families, and IHHS), as well as additional administrative functions. The specific administrative services to be outsourced to L.A. Care are described below.

Because L.A. Care is a public entity, this contract is not governed by Proposition A. As such there is no legal requirement for a Proposition A analysis comparing the cost-effectiveness of outsourcing these functions to the cost of maintaining them in-house. However, the Department's final recommendation to the Board will include a cost analysis.

With regard to the Healthy Families Program subcontractor agreement with L.A. Care, one of the requirements of CHP's participation in the Healthy Families Program is that its provider network be broad enough to ensure adequate geographic coverage. To the extent that DHS facilities are not located in every portion of the County, CHP must contractually enhance its provider network. To date, this has been done through an agreement with Universal Care Health Plan. The Department believes this network will be further enhanced through entering into an additional agreement with L.A. Care to utilize its provider network.

CHP also is required to provide Healthy Families Program members the full scope of basic behavioral health services benefits. Heretofore, these services have been provided through a Memorandum of Understanding with the Department of Mental Health (DMH). DMH has notified CHP that it is no longer able to maintain a comprehensive network of providers to deliver these services. In order to ensure the uninterrupted delivery of behavioral health services to these patients, the Department is entering into an agreement with L.A. Care for these services.

OUTSOURCED ADMINISTRATIVE FUNCTIONS

In the proposed relationship, if approved by the State, L.A. Care would assume the majority of CHP's administrative functions, while the County would retain ownership of CHP's Knox Keene license. The following is a list of functions the Department is considering outsourcing to L.A. Care (this is not an exhaustive list):

Administrative Area	Administrative Function
1. Network Operations	Contract Management, Database Management, Consult with DHS on Network Analysis and Network Development, Provider Relations, and Provider Training
2. Medical Administration	Utilization Management, Case Management, Quality Management, Provider Credentialing and Site Certification, Pharmacy Benefit Management, Consult with DHS on Medical Policy and Medical Compliance Issues, Health Education, Cultural And Linguistics, Provider Education, Provider Performance Reporting, and HEDIS Planning and Reporting
3. Financial Operations	Claims Processing and Development of Capitation Reports, Financial Viability Reviews, and Consult with DHS on Rate Setting
4. Member Services	Call Center Operations, Eligibility Verification, Member Complaints and Grievances, and Translation Services
5. Information Systems	Provider and Member Database Management, Encounter Collection and Reporting, Eligibility Verification Website Support, Electronic Claims Tracking, and Automated Reports
6. Marketing	Outreach and Education, Material Development, Member Newsletter, and Marketing Plan
7. Compliance	Compliance Plan Development, Consult with DHS on Audit Reports, and Legislative Analysis

POTENTIAL PERFORMANCE MEASURES

It is important to the Department and L.A. Care that performance measures are established upfront to ensure accountability to the respective Boards and the public. The following is a list of performance measures that are under consideration for inclusion in the final Administrative Services Agreement:

Contract Period	Performance Measure Under Consideration
Year I	<ol style="list-style-type: none"> 1. Complete transition of administrative functions within a specified number of months 2. Maintain membership, taking into consideration factors outside of the control of both parties such as State policy changes in Medi-Cal that affect eligibility 3. Achieve targeted savings 4. Maintain Medi-Cal revenue associated with CHP 5. Consult with DHS to determine areas of non-compliance with State regulations and develop a comprehensive compliance plan

Year II	<ol style="list-style-type: none">1. Achieve compliance with regulatory requirements for areas within L.A. Care's purview2. Maintain the same level of member satisfaction, as measured through surveys, as CHP reported in earlier periods3. Explore opportunities to increase plan savings by improving plan administration and network development/management
Year III	<ol style="list-style-type: none">1. Achieve higher member satisfaction in areas within L.A. Care's purview, such as Member Services2. Explore opportunities to improve CHP's strategic position in the marketplace and increase plan savings

DHS OVERSIGHT/ACCOUNTABILITY ROLE

The County will retain final decision-making authority for basic health plan management functions, such as rate setting, standards development, planning and program development, and contract development and award. However, the Department believes it will benefit from L.A. Care's consultation in these areas.

DHS will monitor L.A. Care's contract performance on a regular basis, evaluating its progress against established benchmarks, similar to those described above. The contract will delineate measures to be taken if performance appears to fall short of jointly established goals and targets.

MAJOR STEPS AND TIMELINES

DHS, with the assistance of County Counsel, and L.A. Care are working to complete negotiations on the Administrative Services Agreement. By the end of this calendar year, DHS will be in a position to make a final recommendation on the viability of this outsourcing option. The approach and timeline includes the following major milestones:

1. In early January 2003, DHS and L.A. Care will meet with the State DMHC to inform it of DHS' intentions.
2. DHS will file the Healthy Families Program subcontract for Board consideration on the January 7, 2003, agenda.
3. DHS will file the Administrative Services Agreement for Board consideration on the January 14, 2003, agenda.
4. By February 15, 2003, DHS will submit the Material Modification request to the State.
5. By March 1, 2003, DHS and L.A. Care will begin phasing in the transition of administrative functions to L.A. Care.
6. By May 31, 2003, DHS will implement staffing reductions in the Office of Managed Care/CHP and complete the transition of administrative functions to L.A. Care.

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ASSESSMENT OF CHP EXPANSION OPPORTUNITIES

On December 17, your Board approved a motion instructing the Department to conduct an evaluation of the future role of CHP within the County health system. This assessment will include the current lines of business operated by CHP, its fiscal status, and the Department's relationship with L.A. Care, as well as an evaluation of potential product line expansions into such areas as the Medicare managed care population and County employees. The outsourcing of CHP administrative functions should have no bearing on the County's ability to expand the number of insurance product lines that it offers, should it be determined that such an expansion of CHP is warranted. The Department will be presenting its report to the Board on January 14.

I will continue to keep you apprised of the status of this effort. Please let me know if I may provide you any additional information.

TLG:il

c: Chief Administrative Officer
County Counsel
Executive Officer, Board of Supervisors